

CITY OF KANAWHA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2016

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2016)		
Terry Johnson	Mayor	Jan 2016
Judy Vander Ploeg	Council Member	Jan 2018
Nancy Litch	Council Member	Jan 2016
Christa Hanson	Council Member	Jan 2018
Sherrie Johnson	Council Member	Jan 2016
Ray Bassett	Council Member	Jan 2016
Sharon Grimm	City Clerk	July 2016
Earl Hill	Attorney	July 2016
(After January 2016)		
Nancy Litch	Mayor	Jan 2020
Judy Vander Ploeg	Council Member	Jan 2018
Shirley Baker	Council Member	Jan 2018
Christa Hanson	Council Member	Jan 2018
Robert Ziegler	Council Member	Jan 2020
Ray Bassett	Council Member	Jan 2020
Sharon Grimm	City Clerk	July 2017
Earl Hill	Attorney	July 2017



Renner & Birchem, PC

Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kanawha's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 6 through 11 and 26 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2016 on our consideration of City of Kanawha's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kanawha's internal control over financial reporting and compliance.

August 31, 2016



Renner & Birchem, P.C.
Britt, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Kanawha provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 22.0%, or \$122,018 from fiscal 2015 to fiscal 2016. Property tax receipts decreased \$9,725 and operating grants, contributions and restricted interest increased \$24,240. Note proceeds of \$148,500 for fire truck received.
- Disbursements increased 30.0% or \$166,771 in fiscal 2016 from fiscal 2015. Public works disbursements decreased \$51,859. Culture and recreation disbursements increased \$6,595, public safety disbursements increased \$211,314 and general government disbursements decreased \$2,457.
- The City's total cash basis net position increased 6.0%, or \$51,272 from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased \$3,438 and the cash basis net position of the business type activities increased by \$47,834.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information that helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$361,515 to \$364,953. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
Receipts:	Year Ended June 30,	
Program receipts:	2016	2015
Operating grants, contributions and restricted interest	\$ 139,649	115,409
General receipts:		
Property tax	284,706	294,431
Local option tax	48,364	70,564
Commercial/Industrial tax replacement	15,936	
Unrestricted interest	1,124	1,056
Note proceeds	148,500	37,000
Other general receipts	38,223	36,024
Total receipts	676,502	554,484
Disbursements:		
Public safety	331,521	120,207
Public works	139,068	190,927
Culture and recreation	85,488	78,893
Community and economic development	1,000	815
General government	91,530	93,987
Debt service	74,457	71,464
Total disbursements	723,064	556,293
Change in cash basis net position before transfers	(46,562)	(1,809)
Transfers, net	50,000	50,000
Change in cash basis net position	3,438	48,191
Cash basis net position beginning of year	361,515	313,324
Cash basis net position end of year	\$ 364,953	361,515

The City's total receipts for governmental activities increased by 22.0%, or \$122,018. The increase in receipts included \$148,500 in note proceeds and private donations and local grants of \$28,078 for a new fire truck and park upgrades. The total cost of all programs and services increased by \$166,771, or 30.0%, with no new programs added this year, the increase includes purchase of a fire truck for \$215,778.

The cost of all governmental activities this year was \$723,064 compared to \$556,293 last year. However, as shown in the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was only \$583,415 because some of the cost was paid by those directly benefiting from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$139,649). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from \$115,409 to \$139,649.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 122,729	124,236
Sewer	67,516	66,754
Total receipts	190,245	190,990
Disbursements:		
Water	50,071	40,107
Sewer	42,340	32,629
Total disbursements	92,411	72,736
Change in cash basis net position before transfers	97,834	118,254
Transfers, net	(50,000)	(50,000)
Change in cash basis net position	47,834	68,254
Cash basis net position beginning of year	486,928	418,674
Cash basis net position end of year	\$ 534,762	486,928

Total business type activities receipts for the fiscal year were \$190,245 compared to \$190,990 last year. Total disbursements for the fiscal year increased by \$19,374 to a total of \$92,411. The cash balance increased by \$47,834 during the fiscal year compared to an increase of \$68,254 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$364,953, an increase of \$3,438 from last year's total of \$361,515. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$29,117 from the prior year to \$220,309. Net transfers of \$102,453 were received from other funds.
- The Road Use Tax Fund cash balance decreased by \$28,143 to \$70,822 during the fiscal year. The City intends to use this money to upgrade the condition of all city roads.
- There was an increase in the Debt Service Fund cash balance of \$217 for an ending balance of \$2,855.
- The Employee Benefits Fund balance increased by \$9,883 to \$64,424 during the fiscal year.
- The Local Option Fund balance decreased by \$7,636 to \$6,543 during the fiscal year. \$52,453 was transferred to the General Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$22,658 to \$331,000 during the fiscal year.
- The Sewer Fund cash balance increased by \$25,176 to \$203,762 during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 10, 2016 and resulted in an increase in operating disbursements related to upgrades at the park. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$442,000 in general obligation bonds and notes, compared to \$367,000 at the end of the prior year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2016	2015
General obligation bonds	\$ 270,000	330,000
General obligation notes	172,000	37,000
Total	<u>\$ 442,000</u>	<u>367,000</u>

Debt increased as a result of an additional note for the purchase of a fire truck. Proceeds from the note were \$150,000 to be paid back over ten years at 0% interest.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$442,000 is below its constitutional debt limit of approximately \$1,283,061.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Kanawha's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates, and fees that will be charged for various City activities. Economic factors in the area remain steady as the county unemployment rate remains one of the lowest in the state.

These among other economic factors were taken into account when adopting the budget for fiscal year 2017. Amounts available for appropriation in the operating budget are \$692,068, a decrease of 20.43% from the final 2016 budget. Budgeted disbursements are expected to decrease by \$145,185. The City has added no major new programs or initiatives to the 2017 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$58,307 by the close of 2017. Actual amounts can and usually do differ from budgeted amounts.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Grimm, City Clerk, 121 North Main Street, Kanawha, Iowa.

BASIC FINANCIAL STATEMENTS

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Operating Grants, Contributions		Business		
	Charges for	and Restricted		Governmental	Type	
	Service	Interest		Activities	Activities	Total
Disbursements						
Functions / Programs:						
Governmental activities:						
Public safety	\$ 331,521		41,466	(290,055)		(290,055)
Public works	139,068		80,574	(58,494)		(58,494)
Culture and recreation	85,488		17,609	(67,879)		(67,879)
Community and economic development	1,000			(1,000)		(1,000)
General government	91,530			(91,530)		(91,530)
Debt service	74,457			(74,457)		(74,457)
Total governmental activities	723,064		139,649	(583,415)		(583,415)
Business type activities:						
Water	50,071	122,729			72,658	72,658
Sewer	42,340	67,516			25,176	25,176
Total business type activities	92,411	190,245			97,834	97,834
Total	\$ 815,475	190,245	139,649	(583,415)	97,834	(485,581)
General Receipts and Transfers:						
Property tax levied for:						
General purposes				\$ 154,356		154,356
Employee benefits and insurance				59,682		59,682
Debt service				70,668		70,668
Local option sales tax				48,364		48,364
Commercial/industrial tax replacement				15,936		15,936
Unrestricted interest on investments				1,124		1,124
Note proceeds				148,500		148,500
Miscellaneous				34,324		34,324
Sale of assets				3,899		3,899
Transfers				50,000	(50,000)	
Total general receipts and transfers				586,853	(50,000)	536,853
Change in cash basis net position				3,438	47,834	51,272
Cash basis net position beginning of year				361,515	486,928	848,443
Cash basis net position end of year				\$ 364,953	534,762	899,715
Cash Basis Net Position						
Restricted:						
Expendable:						
Streets				\$ 70,822		70,822
Debt service				2,855		2,855
Other purposes				70,967		70,967
Unrestricted				220,309	534,762	755,071
Total cash basis net position				\$ 364,953	534,762	899,715

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue					Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	
Receipts:						
Property tax	\$ 154,356			59,682	70,668	284,706
Other city tax			48,364			48,364
Licenses and permits	325					325
Use of money and property	1,524					1,524
Intergovernmental	67,625	80,574		3,380	4,006	155,585
Miscellaneous	33,599					33,599
Total receipts	257,429	80,574	48,364	63,062	74,674	524,103
Disbursements:						
Operating:						
Public safety	313,066		20	18,435		331,521
Public works	13,066	108,717		17,285		139,068
Culture and recreation	79,178		3,527	2,783		85,488
Community and economic development	1,000					1,000
General government	76,854			14,676		91,530
Debt service					74,457	74,457
Total disbursements	483,164	108,717	3,547	53,179	74,457	723,064
Excess (deficiency) of receipts over (under) disbursements	(225,735)	(28,143)	44,817	9,883	217	(198,961)
Other financing sources (uses):						
Note proceeds	148,500					148,500
Sale of assets	3,899					3,899
Transfers in	102,453					102,453
Transfers out			(52,453)			(52,453)
Total other financing sources (uses)	254,852		(52,453)			202,399
Change in cash balances	29,117	(28,143)	(7,636)	9,883	217	3,438
Cash balances beginning of year	191,192	98,965	14,179	54,541	2,638	361,515
Cash balances end of year	\$ 220,309	70,822	6,543	64,424	2,855	364,953
Cash Basis Fund Balances						
Restricted for:						
Debt service					2,855	2,855
Streets		70,822				70,822
Other purposes			6,543	64,424		70,967
Unassigned	\$ 220,309					220,309
Total cash basis fund balances	\$ 220,309	70,822	6,543	64,424	2,855	364,953

See notes to financial statements.

City of Kanawha

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2016

	Enterprise Funds		
	Water	Sewer Rental	Total
Operating receipts:			
Charges for service	\$ 122,729	67,516	190,245
Total operating receipts	122,729	67,516	190,245
Operating disbursements:			
Business type activities	50,071	42,340	92,411
Total operating disbursements	50,071	42,340	92,411
Excess of operating receipts over operating disbursements	72,658	25,176	97,834
Transfers out	(50,000)		(50,000)
Change in cash balances	22,658	25,176	47,834
Cash balance beginning of year	308,342	178,586	486,928
Cash balances end of year	\$ 331,000	203,762	534,762
Cash Basis Fund Balances			
Unrestricted	\$ 331,000	203,762	534,762
Total cash basis fund balances	\$ 331,000	203,762	534,762

See notes to financial statements.

CITY OF KANAWHA

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Kanawha is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Kanawha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board, Hancock County Development Commission, Community Fire Board and Library Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has elected to report all governmental funds as major funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Fund is used to account for local option tax receipts and disbursements.

The Employee Benefits Fund is used to account for property tax collected and payment of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, no disbursements exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments during the year ended June 30, 2016.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (fund expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes		Total	
	Principal	Interest	Principal	Interest
2017	\$ 88,850	12,573	88,850	12,573
2018	89,113	9,613	89,113	9,613
2019	94,380	6,615	94,380	6,615
2020	94,657	3,329	94,657	3,329
2021	15,000		15,000	
2022-2025	60,000		60,000	
Total	<u>\$ 442,000</u>	<u>32,130</u>	<u>442,000</u>	<u>32,130</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$13,319.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$64,493 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0013054 percent, which was a decrease of 0.0000283 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$7,143, \$17,570 and \$23,503 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 135,481	\$ 64,493	\$ 4,603

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits(OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 3 active members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for the dental benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$631 for single coverage for medical/prescription drug benefits and \$39 for single coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2016 the City contributed \$20,233.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave and comp time hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2016</u>
Vacation	\$ <u>6,913</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Leases

The City of Kanawha has entered into a lease purchase agreement to lease a loader/plow. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2016.

<u>Year Ending</u>	<u>Loader/Plow</u>
2017	\$ 16,863
2018	<u>16,863</u>
Total	33,726
Less amount representing interest	<u>(147)</u>
Present value of minimum net lease payments	\$ <u>33,579</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2016

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$25,955 during the year ended June 30, 2016.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option	\$ 52,453
	Enterprise:	
	Water	<u>50,000</u>
Total		<u>\$102,453</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(11) Subsequent Events

The City has adopted a resolution to borrow \$60,000 to use for repairs and upgrades to City Hall. A resolution approving a \$350,000 note has also been approved with the proceeds expected to be used for a new dump truck and performing repairs to streets and the sewer system.

(12) New Accounting Pronouncement

The City of Kanawha adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No.72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

OTHER INFORMATION

City of Kanawha

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	Governmental Funds	Proprietary Funds		Budgeted Amounts		Final to Total
	Actual	Actual	Total	Original	Final	Variance
Receipts:						
Property tax	\$ 284,706		284,706	276,127	276,127	8,579
Other city tax	48,364		48,364	64,673	64,673	(16,309)
Licenses and permits	325		325	800	800	(475)
Use of money and property	1,524		1,524	1,325	7,625	(6,101)
Intergovernmental	155,585		155,585	156,720	156,720	(1,135)
Charges for services		190,245	190,245	201,200	201,200	(10,955)
Miscellaneous	33,599		33,599	12,700	12,700	20,899
Total receipts	524,103	190,245	714,348	713,545	719,845	(5,497)
Disbursements:						
Public safety	331,521		331,521	365,700	365,700	34,179
Public works	139,068		139,068	148,030	148,030	8,962
Culture and recreation	85,488		85,488	82,455	88,755	3,267
Community and economic development	1,000		1,000	1,000	1,000	
General government	91,530		91,530	114,917	114,917	23,387
Debt service	74,457		74,457	74,458	74,458	1
Business type activities		92,411	92,411	109,000	109,000	16,589
Total disbursements	723,064	92,411	815,475	895,560	901,860	86,385
Excess (deficiency) of receipts over (under) disbursements	(198,961)	97,834	(101,127)	(182,015)	(182,015)	80,888
Other financing sources, net	202,399	(50,000)	152,399	150,000	150,000	2,399
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,438	47,834	51,272	(32,015)	(32,015)	83,287
Balances beginning of year	361,515	486,928	848,443	785,602	785,602	62,841
Balances end of year	\$ 364,953	534,762	899,715	753,587	753,587	146,128

See accompanying independent auditor's report.

City of Kanawha

Notes to Other Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$6,300. The budget amendment is reflected in the final budgeted amounts.

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	2016	2015
City's proportion of the net pension liability	.0013054%	.0013337%
City's proportionate share of the net pension liability	\$ 64,493	52,893
City's covered-employee payroll	\$ 144,450	123,782
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	44.65%	42.73%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Kanawha
Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years

Other Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 13,319	12,281	11,369	13,015	12,259	11,147	10,408	11,193	7,419	6,814
Contributions in relation to the statutorily required contribution	(13,319)	(12,281)	(11,369)	(13,015)	(12,259)	(11,147)	(10,408)	(11,193)	(7,419)	(6,814)
Contribution deficiency (excess)										
City's covered-employee payroll	\$ 144,450	132,592	123,782	140,816	140,023	138,158	135,036	154,239	107,153	101,302
Contributions as a percentage of covered-employee payroll	9.22%	9.26%	9.18%	9.24%	8.75%	8.07%	7.71%	7.26%	6.92%	6.73%

See accompanying independent auditor's report.

City of Kanawha

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

SUPPLEMENTARY INFORMATION

City of Kanawha

Schedule of Indebtedness

Year ended June 30, 2016

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
General corporate purpose	10/1/2007	4.00 - 4.35%	\$ 815,000	330,000		60,000	270,000	6,979
Street sweeper	4/21/2015	2.90	37,000	37,000			37,000	250
Fire truck	7/10/2015	0.00	150,000		150,000	15,000	135,000	
Total				367,000	150,000	75,000	442,000	7,229

See accompanying independent auditor's report.

CITY OF KANAWHA

Bond and Note Maturities

June 30, 2016

GENERAL OBLIGATION NOTES								
Year Ending June 30,	General Corporate Purpose Issued October 1, 2007		Street Sweeper Issued April 21, 2015		Fire Truck Issued July 10, 2015			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	
2017	4.150%	\$ 65,000	2.9%	8,850	0%	15,000	88,850	
2018	4.200	65,000	2.9	9,113	0	15,000	89,113	
2019	4.300	70,000	2.9	9,380	0	15,000	94,380	
2020	4.350	70,000	2.9	9,657	0	15,000	94,657	
2021					0	15,000	15,000	
2022					0	15,000	15,000	
2023					0	15,000	15,000	
2024					0	15,000	15,000	
2025					0	15,000	15,000	
Total		\$ 270,000		37,000		135,000	442,000	

See accompanying independent auditor's report.

CITY OF KANAWHA

Schedule of Receipts By Source and Disbursements By Function
All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Receipts:										
Property tax	\$284,706	294,431	294,720	289,911	313,092	334,442	342,808	309,714	277,321	230,406
Other city tax	48,364	70,564	55,418	56,150	55,000	47,666	65,285	59,367	46,952	49,065
Licenses and permits	325	275	665	665	740	370	450	450	260	265
Use of money and property	1,524	1,506	1,359	1,348	1,531	1,867	2,526	4,495	4,992	3,008
Intergovernmental	155,585	115,409	110,862	107,689	104,052	108,809	113,065	133,893	350,451	64,078
Charges for service									310	2,903
Miscellaneous	33,599	35,168	6,558	28,617	8,289	19,292	10,860	8,305	7,284	70,946
Total	<u>\$524,103</u>	<u>517,353</u>	<u>469,582</u>	<u>484,380</u>	<u>482,704</u>	<u>512,446</u>	<u>534,994</u>	<u>516,224</u>	<u>687,570</u>	<u>420,671</u>
Disbursements:										
Operating:										
Public safety	\$331,521	120,207	122,847	146,040	150,004	155,093	146,247	118,398	136,592	115,850
Public works	139,068	190,927	140,071	134,056	125,169	153,343	144,560	137,752	118,378	105,846
Culture and recreation	85,488	78,893	71,784	63,493	53,432	51,481	54,153	45,061	53,996	54,464
Community and economic development	1,000	815	1,669	1,528	1,597	575	1,733	701	6,033	1,733
General government	91,530	93,987	102,513	96,413	103,750	85,871	89,516	83,867	93,405	83,732
Debt service	74,457	71,464	73,663	70,663	93,613	117,461	116,108	109,355	105,062	358,512
Capital projects								21,784	455,722	371,642
Total	<u>\$723,064</u>	<u>556,293</u>	<u>512,547</u>	<u>512,193</u>	<u>527,565</u>	<u>563,824</u>	<u>552,317</u>	<u>516,918</u>	<u>969,188</u>	<u>1,091,779</u>

See accompanying independent auditor's report.



Renner & Birchem, PC

Certified Public Accountants

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kanawha's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kanawha's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Kanawha's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Kanawha's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-16 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-B-16 through I-D-16 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kanawha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Kanawha's Responses to Findings


City of Kanawha's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Kanawha's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Kanawha during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

August 31, 2016


Renner & Birchem, P.C.
Britt, Iowa

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

I-A-16 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts functions and the cash disbursement functions are all done by the same person. A small staff makes it difficult to establish an ideal system of internal checks on accounting record accuracy and reliability.

Recommendation - We realize that with a limited number of employees segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We will investigate this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-16 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct accounts.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response – In the future, more care will be exercised when posting transactions.

Conclusion - Response acknowledged.

I-C-16 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. A reconciliation is designed to ensure the proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances. The preparation of the reconciliation has not been prioritized.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The city will investigate this.

Conclusion - Response accepted.

Part I: Findings Related to the Financial Statements (continued):

I-D-16 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Kanawha. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The city will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

Instances of Non – Compliance:

No matters were noted.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2016

Part II: Other Findings Related to Required Statutory Reporting:

II-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.

II-B-16 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in as Attorney General’s opinion dated April 25, 1979.

II-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Nancy Litch, Mayor	Website purchase	\$85
Ray Basset, Council Member Central Financial Group	Insurance	25,870

In accordance with Chapter 362.5(5) of the Code of Iowa, the transaction with the City Council Member does not appear to represent a conflict of interest since Ray Basset is only an employee of Central Financial Group and his employment is not directly affected by the contract with the City. The transaction with the Mayor does not appear to represent a conflict of interest since the total amount was less than \$2,500 in accordance with Chapter 362.5(11) of the Code of Iowa.

II-E-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-16 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the council minutes but were not.

Although the City Council was aware of the sale, the Kanawha Community Fire Department sold a fire truck for \$3,500 without obtaining formal City council approval.

Recommendation – Future sales of fire or other equipment should be approved by the City Council and documented in the minutes.

Response – The City Council will approve all future sales of City assets.

Conclusion - Response accepted.

II-G-16 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.